

**RULES
OF
TENNESSEE STATE OIL AND GAS BOARD
STATEWIDE ORDER NO. 2
TERMS**

**CHAPTER 1040-1-1
DEFINITIONS**

TABLE OF CONTENTS

1040-1-1-.01 Definitions of Terms

1040-1-1-.01 DEFINITION OF TERMS. For the purpose of rules contained in Chapter 1040-7-1 the terms set out herein shall have the meanings indicated;

ACCESS ROAD - shall mean any road constructed, improved or used by an operator (except public roads) which provides access to and/or ends at a wellhead, tank, pit or other facility related to oil and gas exploration and/or production.

ACTIVE WORK AREA - as it pertains to a well site, shall mean that portion of the initially disturbed area necessary for production-related equipment, materials, and facilities, as determined by the supervisor.

AUTOMATIC CUSTODY TRANSFER - shall mean that the liquid hydrocarbons is automatically measured as it is transferred from the producer to the carrier.

BARREL (OR, BARREL OF OIL OR CONDENSATE) - shall mean the amount of forty-two (42) standard United States liquid measure gallons of 231 cubic inches per gallon, computed at a temperature of sixty degree (60) Fahrenheit.

BLOW-OUT - shall mean an uncontrolled escape of oil, gas and/or water from the well.

BLOW-OUT PREVENTER - shall mean a properly selected casinghead control fitted with special gates or discs which may be closed around the drill pipe, or which completely closes the top of the casing if the pipe or tools are withdrawn.

BOARD - shall mean the State Oil and Gas Board as authorized and created by Title 60, Tennessee Code Annotated. It is composed of the following:

- (1) The Commissioner of Environment and Conservation, or his or her designee who shall act as chairperson,
- (2) The head of the Division of Energy of the Department of Economic and Community Development,
- (3) The chairperson of the Conservation Commission,
- (4) A member from the oil or gas industry appointed by the Governor.
- (5) An owner of oil and gas property appointed by the Governor, and. A member from the mineral industry appointed by the Governor.

The Commissioner of Environment and Conservation shall be ex officio the State Oil and Gas Supervisor, and shall also serve as Supervisor of the Mineral Test Hole Regulatory Act, Part 5 of Title 60, Chapter 1.

BOTTOMHOLE PRESSURE - shall mean the pressure in pounds per square inch of an oil and/or gas well determined at the face of the producing horizon by means of a pressure-recording instrument, adopted and recognized by the oil and gas industry.

(Rule 1040-1-1, continued)

BRUSH AND ROCK PLUG - shall mean an obstruction, made of wood and stone, and placed in the well bore to form an effective base for plugging material.

CASING PRESSURE - shall mean the pressure built up between the casing and the tubing when the casing and tubing are packed off at the top of the well.

CASINGHEAD GAS - shall mean any gas or vapor, or both, indigenous to an oil stratum and produced from such stratum with oil. It shall be treated as gas, if sold, for the purpose of paying privilege tax.

CHRISTMAS TREE - shall mean an assembly of valves and fittings at the head of the casing of a well to control the flow. Also spoken of as "wellhead connections".

CIRCULATION - shall mean the passing of approved fluid down through the drill stem and up to the surface, in the process of rotary drilling or in setting casing.

COMMON SOURCE OF SUPPLY - shall comprise and include the area, which is underlain or that, from geological or other scientific data or from drilling operations or other evidence, appears to be underlain by a common accumulation of oil or gas or both; provided, that if any such area is underlain or appears from geologic or other scientific data or from drilling operations or other evidence to be underlain by more than one common accumulation of oil or gas, or both, separated from each other by strata of earth and not connected with each other, then such area, as to each said common accumulation of oil or gas, or both, shall be deemed a separate common source of supply.

CONDENSATE - shall mean liquid hydrocarbons that were in the gaseous phase in the reservoir at initial reservoir condition. It shall be treated as oil for the purpose of paying privilege tax.

CONSERVATION - shall mean conserving, preserving, guarding, or protecting the oil and gas resources of the State by obtaining the maximum efficiency with minimum waste in the production, transportation, processing, refining, treating, and marketing of the unrenewable oil and gas resources of the State.

CORRELATIVE RIGHTS OR Equally - shall mean that action or regulation by the Board, which affords a reasonable opportunity to each person entitled thereto to recover or receive the oil and/or gas under his tract or tracts without being required to drill unnecessary wells or incur other unnecessary expense to recover or receive such oil or gas or its equivalent.

CUBIC FOOT OF GAS - shall mean the volume of gas contained in one cubic foot of space at a standard pressure base of 14.73 psia and a temperature base of 60 degrees Fahrenheit.

DEVELOPED AREA - shall mean acreage assigned by the Board to a drilling or production unit on which a well has been completed that is capable of producing oil or gas.

DIRECTIONAL DRILLING - shall mean the drilling of a well that deviated from the vertical by more than five (5) degrees.

DISPOSAL WELL - shall mean a well drilled or converted for subsurface disposal of waste products or brine, and its related surface facilities.

DRILLING MUD - shall mean any approved mixture of water and clay or other material as the term is commonly used in the industry.

EQUITABLE SHARE OF THE PRODUCTION - shall mean, as to each person, that part of the authorized production from the pool that is substantial in the proportion that the amount of recoverable oil and gas, or both, in the developed area of his tracts in the pool bears to the recoverable oil or gas, or both, in the total of the developed area in the pool.

(Rule 1040-1-1, continued)

EXPLOITATION WELL - shall mean a well drilled or to be drilled to one or more pools of oil and/or gas with reasonable assurance of obtaining commercial production.

EXPLORATION WELL - shall mean a well drilled in unproven or semiproven territory for the purpose of ascertaining the presence of commercial oil and/or gas accumulations.

FIELD - shall mean the general area which is underlain or appears to be underlain by at least one (1) pool and including the pool or pools beneath the area.

GAS - shall mean all natural gas and all other fluid hydrocarbons not defined as oil, including condensate because it originally was in a gaseous phase in the reservoir, but excluding helium and other rare gases.

GAS/OIL RATION (GOR) - shall mean the portion of a wellbore drilled laterally into a common source of supply for production or injection purposes.

HORIZONTAL DRAINHOLE - shall mean the portion of a wellbore drilled laterally into a common source of supply for production or injection purposes.

HORIZONTAL DRAINHOLE END POINT - shall mean the terminus of a horizontal drainhole.

HORIZONTAL (LATERAL) DRILLING - shall mean controlled directional drilling of wells with lateral penetration through productive reservoirs.

ILLEGAL GAS - shall mean gas that has been produced, transported, or sold in violations of any rule regulation, or order of the Board.

ILLEGAL OIL - shall mean oil that has produced, transported, or sold in violation of any rule, regulation, or order of the Board.

ILLEGAL PRODUCT - shall mean any product derived in whole or in part from illegal oil or illegal gas.
INTERESTED PARTY shall mean any person who owns an interest within the area of, or proximate to, the tracts directly affected by the application.

LEASE TANK - shall mean the tank or other receptacle into which the oil is produced either directly from a well or from a well through gas separator, gun barrel, or similar equipment.

MARKET DEMAND - shall mean the amount of oil reasonably needed for current consumption, use, storage, or working stocks, within and without the State, or the amount of gas of any type reasonably needed for current consumption, use, or storage, within and without the State.

MECHANICAL PLUG - shall mean a manufactured device to seal the well bore or inside diameter of casing.
MULTIPLE COMPLETION - shall mean the completion of any well so as to permit simultaneous production from two or more common sources of supply with such common sources of supply completely segregated.

NEET CEMENT - shall mean a complex, finely ground, kiln-fired calcium carbonate silicate which, when mixed with water, forms a slurry that will harden in the well bore and casing and effectively seal formations penetrated by the well bore.

NOMINATION - shall mean the amount of oil or gas for which a purchaser has a definite and bona fide need during a given period.

OIL - shall mean crude petroleum that was originally in an oil phase in the reservoir.

OPERATOR - shall mean the person to whom the drilling permit has been issued, whether owner or not, supervising or responsible for drilling, operating, repairing, abandoning or plugging of wells subject to this act.

(Rule 1040-1-1, continued)

OWNER - shall mean the person who has the right to drill into and to produce from any pool, and to appropriate the production for himself or others.

PERSON - shall mean any natural person, corporation, association, partnership, receiver, trustee, guardian, executor, administrator, fiduciary, or representative of any kind, and includes any government or political subdivision or any agency thereof.

POOL - shall mean an underground reservoir containing a common accumulation of crude petroleum oil or natural gas or both. Each zone of the general structure which is completely separated from any other zone in the structure is covered by the term "pool" as used therein.

POOLED UNIT - shall mean two or more tracts of land, of which their ownership may be different, that are consolidated and operated as a single tract for production of oil and/or gas, either by voluntary agreement between the owners thereof, or by exercising of the authority of the Board under the statute. When such tracts are consolidated by Board authority, the size of the consolidation tract will not exceed the size, with permitted tolerance, of a "Drilling Unit" as herein defined. In no such case is there any actual change in the title or ownership of the original tracts.

POLLUTION - shall mean damage or injury from the loss, escape or unapproved disposal of any substance at any well or structure installation subject to these rules.

POLLUTION CONTROL STRUCTURES - shall mean structures designed to prevent pollution, including but not limited to, berms, dikes, diversion drainage ditches, hay bales, pits, or tanks.

PRODUCER - shall mean the owner or operator of a well or wells capable of producing oil or gas, or both, in paying quantities.

PRODUCING FORMATION - shall mean a formation from which oil or gas is being or has been produced. In the context of plugging operations, producing formation shall mean a formation from which oil or gas has been produced in the general vicinity of a well to be plugged.

PRODUCT - shall mean any commodity made from oil or gas.

PRODUCTION UNIT OR PRORATION UNIT - shall mean a drilling unit on which a well producing oil and/or gas has been completed, and which is recognized as such for the purpose of production by the Board.

PROPERTY LINE - as used herein shall mean the boundary dividing tracts on which mineral rights, royalty, or leases are separately owned except that where conventional units shall have been created for the drilling of the well, the boundaries of the unit shall be considered the "property line".

PURCHASER - shall mean any person who directly or indirectly purchases, transports, takes, or otherwise removes production to his account from a well, lease, or common source of supply.

RECLAMATION - shall mean the regarding of all surface disturbed areas associated with oil and gas operations except water areas, replacement of the topsoil or substitution with suitable topsoil material, application of suitable mulch and soil nutrients where necessary, and the establishment of a vegetative cover that is in accordance with acceptable standards as set forth in the rules and regulations of the Board.

REPRESENTED PARTY - shall mean any person who is known to the applicant, after diligent search, to own an interest within the area of, or proximate to, the tracts directly affected by the application and who is also known to have either a consultant or attorney representing him in conservation matters.

SALT WATER - shall mean water, commonly referred to as oil field brine, which is produced in association with oil and/or gas and which is generally considered unsuitable for human consumption or for irrigation because of its high content of dissolved solids.

(Rule 1040-1-1, continued)

SEPARATOR - shall mean an apparatus for separating oil, gas, water, etc., with relative efficiency, as it is produced.

SHUT -IN PRESSURE - shall mean the pressure noted at the wellhead when the well is completely shut-in. Not to be confused with bottomhole pressure.

STRIPPER WELL - shall have the ordinary meaning as that term is generally understood in the oil and gas industry (well capable of producing ten (10) barrels or less per day).

SUBSTITUTE UNIT WELL - shall mean any well already drilled to, or to be drilled to, completed or recompleted in the unitized reservoir which in the interest of good conservation practices should be designed to take the place of and become the unit well as determined by special order.

SUPERVISOR - shall mean the State Oil and Gas Supervisor or his subordinates. The Commissioner of Environment & Conservation or his designee.

TRANSPORTER - shall mean every person engaged in the transportation of oil or gas from tanks or other receptacles located at the place of production in this State.

TUBINGLESS COMPLETION - shall mean the completion of any well so as to permit the passage of production from one separate underground source through one production casing set in the well.

WASTE - in addition to its ordinary meaning, shall mean "physical waste" as that term is generally understood in the oil and gas industry. It shall include; (1) underground waste and inefficient, excessive, or improper use or dissipation of reservoir energy, including gas energy and water drive, of any pool; and the locating, spacing, drilling, equipping, operating, or producing of any oil well or gas well in a manner which results, or tends to result, in reducing the quantity of oil or gas ultimately recoverable from any pool; and (2) surface waste and the inefficient storing of oil and the locating, spacing, drilling, equipping, operating, or producing of oil wells or gas wells in a manner causing or tending to cause unnecessary or excessive surface loss or destruction of oil or gas.

WELL CUTTINGS - shall mean rock samples obtained from rotary or cable tool drilling operations. The Supervisor at his discretion, may determine the required frequency for collecting well cuttings.

WETLANDS - shall mean water areas as defined under Executive Order No. 65 issued on April 3, 1985, and specifically includes fresh water meadows, shallow fresh water marshes, open fresh water, shrub swamps with standing water most of the year, or which are waterlogged during the growing season, wooded swamps, and bogs.

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